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Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

SERIES S-1 INCOME FUND

ANNUAL REPORT 2007

SERIES S-1 INCOME FUND

Series S-1 Income Fund (the "Fund" or "Series S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange on June 12, 2003. The Fund has a termination date of December 31, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2007, Series S-1 paid total cash distributions of \$1.00 per unit compared to \$0.90 per unit in 2006. In addition to the regular monthly distributions of \$0.075 per unit for 2007, Series S-1 declared a special cash distribution of \$0.10 per unit and an estimated special unit distribution of \$0.30 per unit to unitholders of record on December 31, 2007. Upon completion of the Fund's 2007 tax information, the Fund adjusted the value of the special unit distribution to \$0.287 per unit to more accurately reflect tax splits on distributions received from its underlying portfolio holdings. The unit distribution, which was immediately consolidated into the Fund's previously issued and outstanding units, resulted in an increase to the adjusted cost base of each unit.

INVESTMENT HIGHLIGHTS:

	2007	2006	2005
Net Assets per Unit ⁽¹⁾	\$ 9.78	\$ 10.04	\$ 11.17
Market Price per Unit ⁽¹⁾	\$ 9.10	\$ 8.80	\$ 10.53
Trading Premium (Discount)	(7.0%)	(12.4%)	(5.7%)
Cash Distributions per Unit	\$ 1.00	\$ 0.90	\$ 0.90
Trailing Yield ⁽²⁾	11.0%	10.2%	8.5%
Market Capitalization (\$ millions)	\$ 290.0	\$ 293.8	\$ 364.5

⁽¹⁾ Net assets and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

MANAGEMENT REPORT OF FUND PERFORMANCE

(March 20, 2008)

This annual report for the years ended December 31, 2007 and 2006 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Series S-1 Income Fund.

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Series S-1's investment objectives are to provide investors with highly stable and sustainable monthly cash distributions derived from an actively managed and diversified portfolio of income producing investments consisting, in varying amounts, of publicly traded units of Canadian income funds and Canadian high yielding investment grade debt, while at all times maintaining an SR-1 stability rating as provided by Standard & Poor's.

RISK

There are a number of risks associated with an investment in Series S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within

the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

INCOME TRUST TAX

Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007, was given Royal Assent on June 22, 2007 thereby passing into law the Government's imposition of a tax on income trusts starting in 2011. Since the announcement of the income trust tax in October 2006, takeover activity in the trust sector has been significant. We expect that a significant level of takeover activity will persist in the trust sector during the next few years as trusts consider tax mitigating restructuring alternatives leading up to 2011. The tax on income trusts does not directly impact Series S-1, however the tax will impact many of the holdings within its portfolio.

RESULTS OF OPERATIONS

The overall income trust sector experienced much higher redemptions in 2007 relative to 2006 despite having produced a positive total return of 6.6% in 2007 compared to negative 2.8% in 2006. In addition to the negative funds flow into the sector, weakness in the energy and real estate sectors along with confirmation of the new tax on trust distributions commencing in 2011 weighed on overall valuations. Despite record high oil prices in 2007, energy related trusts were hampered by the rising \$Cdn and escalating costs as well as soft natural gas prices and the prospect of Alberta royalty rate increases. In addition, Reits suffered their first year of negative performance since 1998 as concern over the decelerating US economy and US real estate issues caused by tightening credit depressed Reit unit prices. On the positive side, strong acquisition and privatization activity provided some sector wide unit price support, particularly in the ongoing business trust sector.

As a result of these negative market conditions and the Fund's mandatory unit repurchases, Series S-1's net assets declined from \$335.1 million at December 31, 2006 to \$311.6 million at December 31, 2007. On a per unit basis, the Fund's net asset value also declined from \$10.04 per unit at December 31, 2006 to \$9.78 per unit at December 31, 2007.

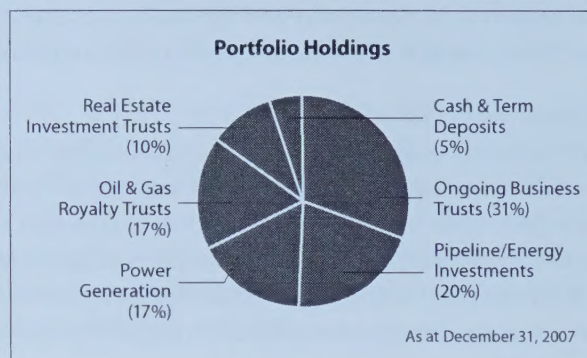
The Fund's market price improved year over year, closing at \$9.10 per unit on December 31, 2007, up from \$8.80 per unit at the end of 2006. Series S-1's market price appreciation plus monthly cash distributions produced a 15.1% total return for 2007, while the Fund generated a 8.5% total return on a net assets basis. By comparison, the S&P/TSX Income Trust Index returned 6.6% over the same period.

Total revenue for 2007 was \$32.1 million down from \$34.1 million in 2006 as certain trusts reduced distributions in 2007 and the Fund's portfolio was reduced to fund unit repurchases. Administrative and investment manager fees, along with trailer fees, decreased to \$3.9 million and \$1.3 million respectively in 2007 from \$4.4 million and \$1.5 million in 2006 as the average net asset value fell over the year. Both administrative and investment manager fees and trailer fees are calculated in reference to the Fund's net asset value. Prior to June 1, 2006, administrative and investment manager fees were payable in trust units of the Fund. After this date, the Fund commenced paying these fees in cash, monthly in arrears. Total general and administration costs, including portfolio transaction costs and other expenses, were \$0.9 million in 2007 compared to \$0.5 million in 2006. The reason for the increase relates to the inclusion of portfolio transaction costs of \$0.34 million in 2007 which are not reflected in the 2006 figures due to the implementation of the new accounting standard on financial instruments. After total expenses of \$6.2 million in 2007, the Fund generated net investment income of \$25.9 million or \$0.79 per unit for 2007 compared to \$27.8 million or \$0.81 per unit for 2006.

The Fund realized gains of \$5.3 million during 2007 as investments were either sold or disposed of as a result of merger and acquisition activity. Offsetting these realized gains in 2007 were unrealized losses of \$6.6 million which

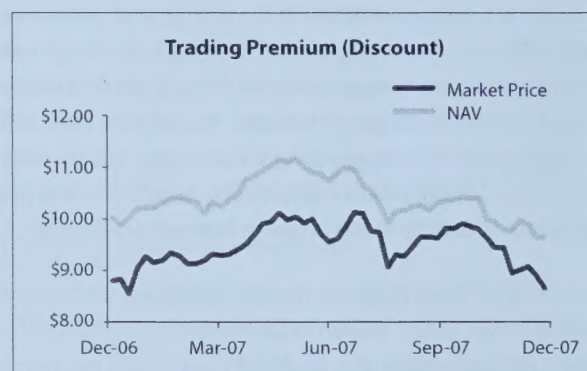
contributed to total results of operations of \$24.6 million or \$0.75 per unit in 2007. Comparatively, total results of operations were negative \$8.4 million or negative \$0.25 per unit in 2006 as a result of the large unrealized losses of \$35.7 million experienced in the year.

During 2007, Series S-1 paid monthly cash distributions of \$0.075 per unit plus a special cash distribution of \$0.10 per unit for unitholders of record on December 31, 2007 for a total of \$32.5 million or \$1.00 per unit compared to \$30.6 million or \$0.90 per unit in 2006. In addition, the Fund declared a special unit distribution of \$0.287 per unit to unitholders of record on December 31, 2007, which was payable in units of the Fund. The unit distribution was immediately consolidated into the Fund's previously issued and outstanding units, such that there was no impact to the net assets per unit.



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2007, the Fund's market price traded at an average discount to its net asset value per unit of 8.8% compared to an average discount of 6.8% for 2006. With this discount, the Fund repurchased 1,641,800 units at an average cost of \$9.45 for 2007 under its mandatory repurchase program compared to 1,522,300 units at an average cost of \$10.07 per unit for 2006. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



STABILITY RATING

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2007, the Fund maintained its SR-1 stability rating and expects to maintain the rating for the foreseeable future.

RECENT DEVELOPMENTS

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Series S-1's three person Independent Review Committee ("IRC") was formed on April 1, 2007 and became fully operational on November 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures were adopted on November 1, 2007 and the Fund was in full compliance with NI 81-107 at that time.

New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation", Section 3865 "Hedges" and

Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

As outlined in National Instrument 81-106 Section 14.2, the net asset value ("NAV") of an investment fund is to be calculated in accordance with Canadian GAAP. The Canadian Securities Administrators ("CSA") granted temporary relief to investment funds from complying with Section 3855 for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements. This relief period has been extended until September 30, 2008. The CSA has proposed amendments to NI 81-106 that will permit funds to have two different net asset values; one for financial statements which will be prepared in accordance with Canadian GAAP (referred to as "net assets" or "net assets per unit"); and another for all other purposes (referred to as "net asset value" or "net asset value per unit"). Until that time, the Fund intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements. This Management Report of Fund Performance has been prepared based on the proposed amendments and the December 31, 2007 annual financial statements have been presented in accordance with the new accounting rules.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

RELATED PARTY TRANSACTIONS

Citadel Series Management Ltd. is the administrator of Series S-1, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in cash or in units, monthly in arrears. Effective June 1, 2006, these fees have been paid in cash rather than units of the Fund. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for the each year since inception.

Net Assets per Unit ("NAPU")

	2007	2006	2005	2004	2003 ⁽¹⁾
NAPU, beginning of period	\$ 10.04	\$ 11.17	\$ 11.14	\$ 10.57	\$ 9.45
Increase (decrease) from operations:					
Total revenue	0.98	1.00	0.95	0.93	0.54
Total expenses	(0.19)	(0.19)	(0.19)	(0.18)	(0.09)
Realized gains (losses)	0.16	(0.01)	0.28	0.22	0.02
Unrealized gains (losses)	(0.20)	(1.05)	(0.13)	0.51	1.04
Total increase (decrease) from operations	0.75	(0.25)	0.91	1.48	1.51
Distributions:					
From net investment income	0.79	0.86	0.88	0.87	0.38
From capital gains	0.16	–	0.02	0.03	–
Return of capital	0.05	0.04	–	–	–
Total cash distributions	1.00	0.90	0.90	0.90	0.38
NAPU, end of period	\$ 9.78	\$ 10.04	\$ 11.17	\$ 11.14	\$ 10.57

⁽¹⁾ The Fund commenced operations on June 12, 2003.

NAPU and cash distributions per unit are based on the actual number of units outstanding at the time. The December 31, 2007 NAPU is based on bid prices and all prior NAPU are based on closing prices. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

At the end of 2007, the Fund declared a special unit distribution which is not reflected above. This unit distribution was immediately consolidated into the Fund's previously issued and outstanding units and as a result there was no impact to the net assets per unit.

Ratios and Supplemental Data

	2007	2006	2005	2004	2003
Net assets (\$'000's)	\$ 311,610	\$ 335,133	\$ 386,544	\$ 389,920	\$ 365,723
Number of units outstanding	31,873,570	33,382,535	34,619,699	34,990,842	34,609,751
Management expense ratio	1.74%	1.71%	1.74%	1.75%	1.64%
Portfolio turnover ratio	25.59%	32.65%	22.11%	10.68%	6.57%
Trading expense ratio	0.10%	0.10%	0.09%	0.03%	0.08%
Closing market price	\$ 9.10	\$ 8.80	\$ 10.53	\$ 11.40	\$ 10.65

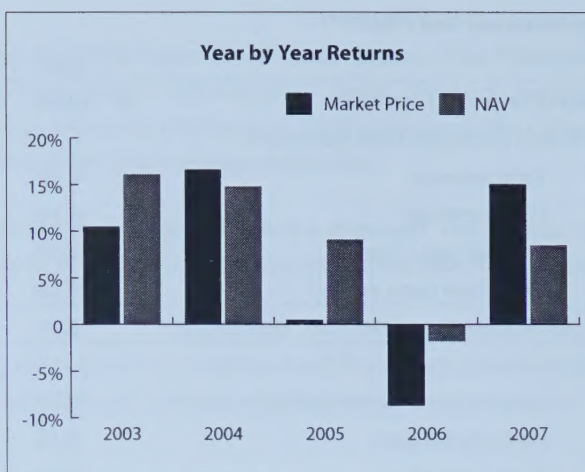
Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units or in cash monthly in arrears. Effective June 1, 2006, these fees have been paid in cash rather than units of the Fund. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for a portion of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.



PAST PERFORMANCE

Series S-1's performance numbers represent the annual compound total returns over the period from inception in June 2003 to December 31, 2007 (except for returns of less than one year which are compound total returns). Total returns are based upon the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.

ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Series S-1 based on market price and net assets per unit with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2007. The S&P/TSX Capped Income Trust Index is a total return based on a market cap weighted index of all Global Industry Classification Standards of the income trust sector. In 2007, Series S-1's net assets return exceeded the index due to its relative overweight position in the ongoing business trust sector which fared much better due to takeover activity.

	1 Year	3 Year	Since inception
Series S-1 (market price)	15.13%	1.83%	7.00%
Series S-1 (net assets)	8.45%	5.10%	10.07%
S&P/TSX Capped Income Trust Index	6.61%	10.70%	17.73%

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2007

Net Assets: \$311,609,808

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	31.7%
Power Generation Investments	17.6%
Oil & Gas Royalty Trusts	17.3%
Pipeline / Energy Investments	19.7%
Real Estate Investment Trusts	9.8%
Cash and Term Deposits	4.9%
Liabilities, net of other assets	(1.0%)
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Northland Power Income Fund	5.9%	Crescent Point Energy Trust	2.6%
Fort Chicago Energy Partners L.P.	5.2%	Medical Facilities Corp.	2.6%
Inter Pipeline Fund	4.9%	Superior Plus Income Fund	2.6%
Yellow Pages Income Fund	4.5%	AltaGas Income Trust	2.5%
Keyera Facilities Income Fund	4.5%	Bonavista Energy Trust	2.3%
Epcor Power L.P.	4.1%	Inn Vest Reit	2.2%
Consumers' Waterheater Income Fund	4.0%	New Flyer Industries Inc.	2.2%
Noranda Income Fund	3.8%	Arctic Glacier Income Fund	2.0%
Boralex Power Income Fund	3.0%	Chemtrade Logistics Income Fund	2.0%
Bell Aliant Regional Comm. Income Fund	3.0%	Extendicare Reit	2.0%
Atlantic Power Corporation	2.9%	Baytex Energy Trust	1.9%
ARC Energy Trust	2.7%	H&R Reit	1.9%
Rogers Sugar Income Fund	2.7%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

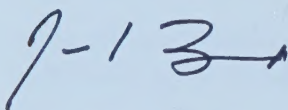
MANAGEMENT'S RESPONSIBILITY STATEMENT

The financial statements of Series S-1 Income Fund have been prepared by Citadel Series Management Ltd. ("SML") and approved by the Board of Directors of SML. SML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

SML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

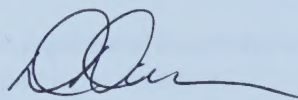
The Board of Directors of SML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of SML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Citadel Series Management Ltd.

March 20, 2008



Darren K. Duncan
Chief Financial Officer
Citadel Series Management Ltd.

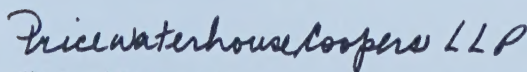
AUDITORS' REPORT TO UNITHOLDERS

To the Unitholders of Series S-1 Income Fund

We have audited the statements of net assets and investments of Series S-1 Income Fund as at December 31, 2007 and 2006, and the statements of operations and comprehensive income and changes in net assets for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2007 and 2006 and the results of its operations and the changes in its net assets for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.



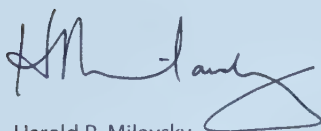
Chartered Accountants
Calgary, Alberta
March 20, 2008

STATEMENT OF NET ASSETS

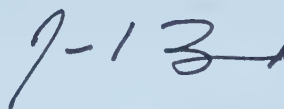
As at December 31	2007	2006
Assets		
Investments, at market	\$ 299,411,283	\$ 321,356,633
Cash and term deposits	15,420,885	13,907,686
Revenue receivable	2,880,399	3,024,127
Prepaid expenses	29,806	29,840
	317,742,373	338,318,286
Liabilities		
Accounts payable and accrued liabilities	554,690	500,233
Payable for investments purchased	—	181,757
Distributions payable	5,577,875	2,503,690
	6,132,565	3,185,680
Net Assets representing Unitholders' Equity	\$ 311,609,808	\$ 335,132,606
Units outstanding (note 3)	31,873,570	33,382,535
Net Assets per unit	\$ 9.78	\$ 10.04

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For the years ended December 31	2007	2006
Revenue		
Distribution income	\$ 31,129,457	\$ 32,933,089
Interest income	702,526	1,134,742
Securities lending income	224,750	45,436
	32,056,733	34,113,267
Expenses		
Administrative and investment manager fees (note 4)	3,938,651	4,355,350
Trailer fee (note 5)	1,329,831	1,457,204
General and administration costs	356,381	264,272
Portfolio transaction costs (note 8)	343,506	—
Directors' fees	82,705	72,773
Reporting costs	58,099	84,536
Custodial fees	31,500	33,804
Audit fees	23,630	22,890
Legal fees	21,405	16,574
Trustee fees	20,486	20,687
	6,206,194	6,328,090
Net investment income	25,850,539	27,785,177
Net realized gain (loss) on sale of investments (note 6)	5,297,375	(495,072)
Net change in unrealized gain (loss) on investments	(6,577,012)	(35,713,280)
Total results of operations and comprehensive income	\$ 24,570,902	\$ (8,423,175)
Results of operations per unit⁽¹⁾		
Net investment income	\$ 0.79	\$ 0.81
Net realized gain (loss) on sale of investments	0.16	(0.01)
Net change in unrealized gain (loss) on investments	(0.20)	(1.05)
	\$ 0.75	\$ (0.25)

⁽¹⁾ Based on the weighted average number of units outstanding.

see accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

For the years ended December 31	2007	2006
Net Assets – beginning of year	\$ 335,132,606	\$ 386,543,883
Fair Value Adjustment: (note 2)		
Adjust January 1, 2007 to bid prices	(1,326,875)	–
Operations:		
Net investment income	25,850,539	27,785,177
Net realized gain (loss) on sale of investments	5,297,375	(495,072)
Net change in unrealized gain (loss) on investments	(6,577,012)	(35,713,280)
	24,570,902	(8,423,175)
Unitholder Transactions:		
Issuance of trust units, net	9,147,715	1,551,204
Proceeds from distribution reinvestment plan	1,248,582	1,390,585
Repurchase of trust units	(15,522,526)	(15,334,858)
	(5,126,229)	(12,393,069)
Distributions to Unitholders: (note 7)		
From net investment income	(25,850,539)	(29,365,020)
From capital gains	(5,297,375)	–
Return of capital	(10,492,682)	(1,230,013)
	(41,640,596)	(30,595,033)
Net Assets – end of year	\$ 311,609,808	\$ 335,132,606
Distributions per unit	\$ 1.00	\$ 0.90

see accompanying notes

STATEMENT OF INVESTMENTS

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
Amtelcom Income Fund	—	\$ —	\$ —		475,000	\$ 5,249,225	\$ 5,272,500	
Arctic Glacier Income Fund	550,000	5,478,277	6,297,500		590,000	5,718,069	7,386,800	
Bell Aliant Regional Comm Income Fund	315,000	9,571,782	9,270,450		300,000	9,131,261	8,088,000	
Brookfield Real Estate Services Fund	217,000	2,170,000	2,912,140		—	—	—	
Chemtrade Logistics Income Fund	740,000	10,036,278	6,245,600		700,000	9,710,102	5,635,000	
The Consumers' Waterheater Income Fund	850,000	11,226,197	12,495,000		776,500	10,264,549	10,420,630	
Custom Direct Income Fund	—	—	—		700,000	7,000,000	5,236,000	
KCP Income Fund	—	—	—		600,000	7,128,183	4,464,000	
Medical Facilities Corp.	700,000	6,274,698	8,050,000		700,000	6,274,697	6,300,000	
New Flyer Industries Inc.	540,000	4,928,724	6,750,000		487,800	4,426,416	4,478,004	
Noranda Income Fund	1,240,000	12,278,399	11,953,600		967,600	9,621,606	9,530,860	
Rogers Sugar Income Fund	1,825,000	7,539,798	8,522,750		1,525,000	6,204,798	5,612,000	
Royal LePage Franchise Facilities Fund	—	—	—		400,000	4,000,000	5,340,000	
Royal Utilities Income Fund	150,300	1,503,000	1,591,677		152,300	1,523,000	1,728,605	
SFK Pulp Fund	1,194,400	2,627,680	2,639,624		—	—	—	
Sun Gro Horticulture Income Fund	645,700	5,185,436	5,101,030		600,000	4,846,342	4,206,000	
Teranet Income Fund	—	—	—		564,700	5,813,520	5,020,183	
TransForce Income Fund	300,000	3,256,334	2,760,000		—	—	—	
Yellow Pages Income Fund	1,020,000	12,199,274	14,167,800		820,000	9,439,274	10,553,400	
		94,275,877	98,757,171	31.3%		106,351,042	99,271,982	29.6%
Power Generation Investments								
Algonquin Power Income Fund	—	—	—		1,300,000	12,500,341	12,909,000	
Atlantic Power Corporation	850,000	8,559,287	9,095,000		850,000	8,559,287	9,596,500	
Boralex Power Income Fund	1,600,000	15,752,494	9,376,000		1,550,000	15,462,519	14,539,000	
Countryside Power Income Fund	—	—	—		698,400	6,796,765	4,853,880	
Epcor Power L.P.	547,200	16,291,092	12,727,872		260,000	8,789,320	6,955,000	
Innergex Power Income Fund	454,000	4,762,562	5,357,200		454,000	4,762,562	6,020,040	
Northland Power Income Fund	1,510,000	19,274,569	18,437,100		554,300	6,421,936	7,244,701	
TransAlta Power L.P.	—	—	—		1,902,100	17,426,317	14,208,687	
		64,640,004	54,993,172	17.5%		80,719,047	76,326,808	22.8%
Oil & Gas Royalty Trusts								
ARC Energy Trust	420,000	9,158,664	8,555,400		110,500	2,484,261	2,464,150	
Baytex Energy Trust	320,000	4,231,423	6,048,000		450,000	5,950,439	10,026,000	
Bonavista Energy Trust	250,000	6,977,500	7,095,000		250,000	6,977,500	7,037,500	
Canetic Resources Trust	—	—	—		378,000	6,330,818	6,214,320	
Crescent Point Energy Trust	330,000	5,520,000	8,147,700		300,000	5,025,000	5,280,000	
Enerplus Resources Fund	110,000	3,486,111	4,373,600		100,000	3,082,407	5,068,000	
Focus Energy Trust	290,000	5,561,162	4,848,800		—	—	—	
NAL Oil & Gas Trust	502,600	6,816,070	5,805,030		480,000	6,512,100	5,908,800	
Paramount Energy Trust	—	—	—		500,000	6,674,775	6,200,000	
Penn West Energy Trust	192,600	5,144,346	4,971,006		—	—	—	
Progress Energy Trust	368,800	3,937,242	3,990,416		—	—	—	
		50,832,518	53,834,952	17.1%		43,037,300	48,198,770	14.4%
Pipeline/Energy Investments								
AltaGas Income Trust	300,000	7,691,364	7,890,000		—	—	—	
Fort Chicago Energy Partners L.P.	1,500,400	17,859,548	16,249,332		1,500,400	17,859,548	17,209,588	
Inter Pipeline Fund	1,600,000	10,448,884	15,168,000		1,600,000	10,448,884	14,464,000	
Keyera Facilities Income Fund	714,600	8,732,665	14,127,642		600,000	6,731,316	9,984,000	
Superior Plus Income Fund	690,000	10,471,235	7,997,100		250,000	4,755,392	2,677,500	
		55,203,696	61,432,074	19.5%		39,795,140	44,335,088	13.2%

(continued on following page)

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
Real Estate Investment Trusts								
Dundee Reit	—	—	—	—	462,300	9,887,115	17,867,895	—
Extendicare Reit	500,000	7,475,967	6,200,000	—	400,000	5,986,118	5,812,000	—
Firm Capital Mortgage Inv. Trust	568,200	6,013,775	5,750,184	—	568,200	6,013,775	5,937,690	—
H&R Reit	300,000	6,216,153	5,937,000	—	300,000	6,216,153	7,227,000	—
InnVest Reit	647,000	6,250,337	6,851,730	—	700,000	6,762,342	9,660,000	—
Riocan Reit	260,000	3,615,415	5,655,000	—	260,000	3,615,415	6,539,000	—
		29,571,647	30,393,914	9.7%		38,480,918	53,043,585	15.8%
Series S-1 units – repurchased for cancellation	—	—	—	—	20,500	181,757	180,400	0.1%
Investments		294,523,742	299,411,283	95.1%		308,565,204	321,356,633	95.9%
Cash and Term Deposits		15,420,885	15,420,885	4.9%		13,907,686	13,907,686	4.1%
Total		\$ 309,944,627	\$ 314,832,168	100.0%		\$ 322,472,890	\$ 335,264,319	100.0%

All portfolio holdings are trust units, except the following: Medical Facilities Corp. and Atlantic Power Corporation – income participating securities; New Flyer Industries Inc. – income deposit security; Epcor Power L.P, TransAlta Power L.P.– limited partnership units; Fort Chicago Energy Partners L.P and Inter Pipeline Fund – Class A limited partnership units.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

1. STRUCTURE OF THE FUND

Series S-1 Income Fund (the “Fund” or “Series S-1”) is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of April 17, 2003 and amended June 12, 2003. The Fund commenced operations upon completion of its initial public offering on June 12, 2003. The term of the Fund continues until December 31, 2009 in accordance with the provisions of the Fund’s Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and term deposits

Cash consists of cash on hand and short term bankers’ acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are valued at fair value. The fair value of securities which are actively traded are valued at bid price as published on the recognized stock exchange on which the investment is listed or principally traded. Prior to January 1, 2007, investments were generally valued at the closing price. The fair value adjustment from the closing price as at December 31, 2006, to the closing bid price for investments at December 31, 2007, is reflected in the Statement of Changes in Net Assets. Investments not traded on the valuation date are valued at the average of the closing bid and ask prices. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income

Tax Act (Canada). As all taxable income was allocated to the unitholders, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest and securities lending income is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, investments, prepaid expenses, accounts payable and accrued liabilities, payable for investments purchased and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

(f) Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	December 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Trust units – beginning of year	33,382,535	\$ 315,214,398	34,619,699	\$ 327,607,467
Issued for services (note 4)	–	–	147,134	1,551,204
Unit distribution and consolidation	–	9,147,715		
Issued under DRIP	132,835	1,248,582	138,002	1,390,585
Repurchase of trust units	(1,641,800)	(15,522,526)	(1,522,300)	(15,334,858)
Trust units – end of year	31,873,570	\$ 310,088,169	33,382,535	\$ 315,214,398

The weighted average number of units outstanding for the year ended December 31, 2007 was 32,668,369 units (2006 - 34,094,482 units).

The Fund declared a special unit distribution of \$0.287 per unit to unitholders of record on December 31, 2007 which was payable in units of the Fund. This unit distribution was immediately consolidated into the Fund's previously issued and outstanding units.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. For the year ended December 31, 2007, Series repurchased 1,641,800 trust units under this program at an average cost of \$9.45 per unit (2006 - 1,522,300 units at an average cost of \$10.07 per unit).

Unitholders of Series S-1 can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Series S-1 at the 5 day weighted average market price of the Fund's units. For the year ended December 31, 2007, 132,835 units (2006 - 138,002 units) were issued under the DRIP.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES / DIRECTORS' FEES

Citadel Series Management Ltd. ("SML") is the administrator of the Fund and therefore a related party to the Fund. Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units or cash monthly in arrears. Effective June 1, 2006, the Fund commenced paying these fees in cash. For the year ended December 31, 2007, the Fund paid cash fees of \$3,938,651 in respect of the administrative and investment management fees earned during the period (2006 - 147,134 units and cash fees of \$2,804,146 for a total expense of \$4,355,350). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2007, included in accounts payable were amounts owed to SML of \$86,152 (2006 - \$4,432 included in accounts payable).

Directors of SML received a total of \$72,500 cash (2006 - \$62,500) as payment for their annual retainers.

5. TRAILER FEE

Series S-1 pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the year ended December 31, 2007, the Fund recorded an expense of \$1,329,831 (2006 - \$1,457,204) relating to the trailer fee.

6. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

For the years ended December 31	2007	2006
Proceeds from the sale of securities	\$ 105,833,267	\$ 144,041,765
Less cost of securities sold:		
Investments at cost – beginning of year	308,565,204	330,990,019
Investments purchased during year	86,494,430	122,112,022
Investments at cost – end of year	(294,523,742)	(308,565,204)
Cost of investments disposed of during year	100,535,892	144,536,837
Net realized gain (loss) on sale of investments	\$ 5,297,375	\$ (495,072)

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon investment income received by the Fund less estimated expenses. For the years ended December 31, 2007 and 2006, the Fund also distributed a portion of its realized gains and/or return of capital.

For the years ended December 31	2007	2006
Net investment income for the year	\$ 25,850,539	\$ 27,785,177
Add fees paid by issuance of units	–	1,579,843
Capital distributed	6,642,342	1,230,013
Cash distributions	32,492,881	30,595,033
Special unit distribution	9,147,715	–
Total distributions	\$ 41,640,596	\$ 30,595,033
Cash distributions per unit	\$ 1.000	\$ 0.90
Special unit distribution per unit	0.287	–
Total distributions per unit	\$ 1.287	\$ 0.90

8. PORTFOLIO TRANSACTION COSTS

For the year ended December 31, 2007, the Fund incurred portfolio transaction costs of \$343,506 (2006 – \$369,433) and they are recorded separately in the Statement of Operations for 2007 only, as per Note 2(e).

9. SECURITIES LENDING

The Fund engaged in securities lending during 2007 and as at December 31, 2007, the Fund had lent out \$43.4 million (2006 – \$34.0 million) of its portfolio securities with \$45.6 million (2006 – \$36.6 million) of collateral in primarily federal and provincial bonds.

CORPORATE INFORMATION

ADMINISTRATORS

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
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Fax: (403) 261-8670
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Email: info@citadelfunds.com

INVESTMENT MANAGER

**(CTD.un, SDL.un, CHF.un, CRT.un,
SRC.un and CSR.un)**

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Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

INVESTMENT MANAGER

(EPF.un, SPU.un and CGF Resource 2006)

Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

INVESTMENT MANAGER

(CPF.un)

Fiera YMG Capital Inc.
1501 McGill College Avenue, Suite 900
Montreal, Quebec H3A 3M8

REBALANCING ADVISOR

(IEP.un, EQW.un and FPR.pr.a)

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Calgary, Alberta T2T 5R6

INDEPENDENT REVIEW COMMITTEE

Stephen Allan – Chairman
John Watson
Duane Keinick

DIRECTORS AND OFFICERS

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer
Joseph F. MacDonald - Executive V.P. Sales & Marketing

TRUSTEE

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CUSTODIAN

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AUDITORS

PricewaterhouseCoopers LLP
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Calgary, Alberta T2P 5L3

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed



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